SPRC
Social Policy Research Centre

IMPACT OF STAFF RATIOS ON UNDER 2 YEAR OLDS IN CHILDREN'S SERVICES

FOR THE NATIONAL ASSOCIATION OF COMMUNITY BASED CHILDREN'S SERVICES (NSW), EARLY CHILDHOOD AUSTRALIA (NSW), LOCAL GOVERNMENT CHILDREN'S SERVICES ASSOCIATION (NSW) AND COMMUNITY CHILD CARE CO-OPERATIVE (NSW)

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Abbreviations

DoCS	NSW Department of Community Services (the Department)
ECA	Early Childhood Australia
IEC	Institute of Early Childhood, Macquarie University
NACBCS	National Association of Community Based Children’s Services
PWC	PricewaterhouseCoopers
SPRC	Social Policy Research Centre

Summary

The draft children's services regulation announced in April 2004 included a minimum standard staff child ratio of 1:5 for children aged under 2 years in centre-based and mobile children's services. The 2002 draft regulation proposed a better staff child ratio of 1:4. This research examined the likely impact of the 1:4 staff child ratio.

The PricewaterhouseCoopers (PWC) report commissioned by the NSW Department of Community Services found that the balance of benefits and costs supported the 2002 draft regulation of 1:4 staff child ratio, even under worst case scenarios (PWC, 2003).

National and international research on a minimum staff child ratio for care of children aged under 2 years supports a 1:4 ratio. It is consistent with NSW Government commitment to early childhood development, national and international recommended standards, outcomes for children and improving the availability of qualified and experienced early childhood staff.

Impact on cost and fees

For children's services that do not already provide a 1:4 staff ratio for children under 2 years, staff costs will increase. However, there are a number of reasons why the cost of this care is unlikely to be fully passed on to fees to families using care for this age group:

- many services, reportedly up to 50 per cent, already provide a 1:4 staff ratio, so the cost is already included in their fees. Competition will constrain fee increases for the other services adjusting to the new ratio. Growth in the supply of under 2 year old care seems to be in community places, again indicating competition pressure to restrain private centre fees;
- increased costs for one age group can be spread between all age groups, as is the common practice in other States with a better minimum staff child ratio; and
- the historic increase in demand for community service under 2 places indicates that families appear willing and have the capacity to pay some fee differential for care for younger children (this was the case even when community service price increases for children under 2 years were greater than for private services). This suggests a small increase in fees could be managed by these families, without affecting demand.

Impact on supply

A possible small reaction to the increase in staff costs for children's services that do not already provide a 1:4 staff ratio for children under 2 years might be to slightly reduce the supply of this type of care. The research shows it is unlikely that this effect will be large:

- many services, already provide a 1:4 staff ratio, so the cost is already factored in to their assessment of financial viability. As with fees, competition will continue to encourage providers to maintain supply or lose market share in the face of high demand for care for children under 2 years;

- in private care, it is larger services that provide most under 2 year care places. They are also in the best financial position to absorb cost increases and spread costs between other age groups, without reducing supply; and
- in the previous FACS Census period, the greatest growth in care for babies was from the community sector, which is less likely to respond to changes in minimum quality standards by removing places from supply.

Impact on staffing

NSW, like the rest of Australia, is suffering a shortage of qualified and experienced early childhood staff. Research suggests that a better staff child ratio can improve staff conditions and job satisfaction and reduce stress, thereby addressing problems aggravating the availability of staff.

Introduction

The Minister of Community Services is expected to introduce the draft children's services regulation to the NSW Parliament in May 2004. Included in these regulations is a minimum standard staff child ratio of 1:5 for children aged under 2 years in centre based and mobile children's services. The 2002 draft regulation proposed a better staff child ratio of 1:4.

The NSW Department of Community Services (DoCS) commissioned PricewaterhouseCoopers (PWC) to evaluate aspects of the draft regulation in 2003 (PWC, 2003). The report found that the balance of benefits and costs supported the recommendation of a 1:4 staff child ratio.

The National Association of Community Based Children's Services (NACBCS) (NSW), Early Childhood Australia (NSW), Local Government Children's Services Association (NSW) and Community Child Care Co-operative (NSW) requested that the Social Policy Research Centre (SPRC) research the impact on the availability and cost of child care places for children aged under 2 years of a change to a staff child ratio of 1:4.

This report summarises findings from literature and secondary data on the impact of staff ratios on the experiences of children and staff; and the impact on costs, fees and supply of child care places under 2 years. It also includes survey data from NACBCS members that already provide a 1:4 standard of care.

We were not able to find literature on experiences of change in supply of child care places, where staff ratios have changed; or experiences of change in fees to families, where costs have changed. This could have been because of the brief period for the research. Data were also not available from the Office of Childcare to confirm the current supply of 1:4 care for babies in NSW.

Section 1 examines the policy context, national and international minimum recommended standards and research on the impact of staff ratios on babies in child care centres. It also summarises the research on the impact on staff working in this type of care.

Section 2 looks at the impact of staff ratios on the cost of child care places to child care providers and on parent fees. This includes a comparative analysis with other States that already provide 1:4 staffing for babies.

Section 3 describes the current supply of child care centre places for children aged under 2 years and again compares this to the other States with better staff child ratios. It concludes with analysis of the likely impact on the supply of places with a change in the staff child ratio.

Finally, Section 4 draws conclusions from the research.

1 Impact of Staff Ratios on Children and Staff

This section summarises the literature on the NSW policy context; staff child ratios in relation to quality of care and child outcomes; and staff availability and conditions.

1.1 NSW Policy Context

The NSW Government has a strong commitment to early childhood development and early intervention and prevention, consistent with national and international literature on effective human service delivery (DoCS, 2002a). Policies such as Families First and services for vulnerable families illustrate this commitment. DoCS insists upon the importance of early childhood development, stating the following in a recent policy document.

> Good relationships between parents and children in the first three years of life provide the foundation for a healthy, happy and resilient life. Without nurturing experiences in their early lives, children face huge hurdles… Early intervention initiatives aim to shore up the parent-child relationship so that difficulties do not reach the stage where abuse occurs or the child’s development is jeopardised. (Department of Community Services, 2003: 6)

In terms of economic benefits, some attempts have been made to calculate the contribution of the child care sector nation-wide to the Australian economy. Martin (2003) estimates the direct value of Australian child care business’ at $3 million, the indirect value to the economy in terms of increased consumption through employment at $10 million, the taxable income of workers at $300 million, and savings to government in terms of reduced Family Tax Benefits at $1.5 billion. From this, Martin estimates that for every dollar spent on child care, economic benefits of more than $12 are returned, earnings of $5.60 are directly or indirectly supported, and close to $2 are returned to the government’s bottom line in the form of increased taxation and reduced government outlays. They suggest that these figures are similar to those derived from studies in the US and Canada.

The Family and Community Services (FACS) Child Care Workforce Think Tank (2003) suggests improving the value of child care in public perceptions in recognition of its substantial benefits to individuals, communities and economies. Such improvement would stem from better awareness of the importance of the early years for children’s development and capacity as a foundation for future life.

Through the Office of Childcare in DoCS, the Government licenses and monitors the quality of 3800 child care services in NSW, as well as undertakes some funding responsibilities (DoCS, 2002a). Children’s services in NSW employ about 21,000 workers. Of these services, some are privately owned and operated as businesses, whilst parent committees manage others as non-profit community based centres.

The DoCS budget for children’s services is close to $100 million, of which $4.3 million is designated for early childhood resources and support (DoCS, 2002a). DoCS plans and funds 1385 preschools, long day care centres, and occasional care centres, and 90 early childhood services. This provides support for approximately 11,000 child care places for children under 3 years. DoCS notes the importance in running and regulating services for giving children the opportunity to socialise and learn, giving parents employment and socialising opportunities, and providing communities with focal points for sharing information on child and family issues.

DoCS holds primary responsibility for regulations concerning the minimum required quality of child care delivered. In accordance with statutory responsibility, DoCS prepared a new regulation in 2002, Draft Children's Services Regulation 2002 (Department of Community Services, 2002b).

The Department commissioned PWC to conduct the Regulatory Impact Statement (RIS) for the draft regulation in the same year. The RIS confirmed that statutory regulation was the most desirable form of regulation for the industry, given the importance of maintaining quality standards in child care. However, it did not cover in great depth the costs and benefits of major operating changes planned under the draft regulation.

Again in 2003, DoCS commissioned PWC to evaluate five operating changes proposed in the draft regulation, including the reduced staff:child ratio from 1:5 to 1:4 for children under 2 years of age (PWC, 2003). And again, they concluded the benefits were greater than the costs for each of these proposed changes, including the staff child ratio for babies.

However, despite the 2002 RIS and 2003 evaluation conclusions, when the Minister announced the most recent version of the draft regulation in April 2004, the staff child ratio for babies specified in the 2002 draft had been removed. The 2004 draft contradicts the NSW Government's previous support for better staff child ratios, and its more general commitment to prioritising of support for early childhood development.

The most recent section 56 'Staff to Child Ratios' in the draft Children's Services Regulation 2004 states:

> (1) The licensee of a centre based or mobile children's service must ensure that the ratio of primary contact staff to children being provided with the service is: (a) 1:5 in respect of all children who are under the age of 2 years. (Department of Community Services, 2004: 46)

The Government justified the decision on the basis of a review, presumably the 2003 PWC report, stating that licensed places would be reduced by 5-6 per cent for children under the age of 2 years, leading to the withdraw of up to 600 places from supply (Minister for Community Services, 2004; Totaro, 2004). The Minister's media release confirms the decision made on the basis of these figures, and the desire to avoid the loss of places.

> Independent analysis on the impacts of a higher ratio showed it could result in about 600 places being withdrawn from supply – this is about 5-6 per cent of all licensed places for children under two … the NSW government believes this is an unacceptable impact at a time when there is already a shortage of childcare places, particularly for children under two. (Minister for Community Services, 2004)

However, such findings take the worst case cost scenario described by PWC as a given, and ignores the many qualifiers PWC includes in its report that would have the effect of constraining any cost increase and reducing the size and concentration of loss of places. These PWC findings are discussed in more detail in Sections 2 and 3.

In addition, the Government seems to have ignored PWC conclusions and recommendations on the staff child ratio for babies. The Government decision, supposedly on the basis of cost benefit recommendations by independent researchers, appears to rest on an incomplete and pessimistic reading of these recommendations.

The remainder of this section examines other research on the reasons for national and international recommended minimum standards for better than 1:5 staff child ratios for care of children aged under 2 years. These relate to quality outcomes for children and impact on staffing in children's services.

1.2 National and International Recommended Standards and Practice

Research on outcomes for very young children in child care focuses on the number and quality of staff in the care environment. Both national and international recommended standards for staff child ratio for children aged under 2 years are better than 1:5, generally preferred at 1:3 or 1:4. This section summarises some of that research and practice.

Regulatory reform towards a minimum ratio of 1:4 is supported by evidence at home and from overseas. Within Australia, Early Childhood Australia, the national peak early childhood professional body, recommends for a staff child ratio of 1:3 for babies (ECA, 2004).

The minimum ratio of 1:4 is already in effect in Western Australia and Queensland. The impact on cost and supply in these States is discussed later in this report (Table 2.1 and Table 3.1). It is also claimed that up to 50 per cent of NSW child care places for children aged under 2 years already operate at better than the minimum 1:5 regulations (PWC, 2003).

Internationally, Murray (1994) notes that the United States Federal Interagency Day Care Requirements specify a ratio of 1:3, whilst the US National Research Council recommends 1:4. The study carried out by Phillips et al (2000) showed that two of the most significant factors in better classroom quality for infants and toddlers were smaller teacher-child ratios and higher parent fees. Three US states were considered in this study with different ratio regulations – Massachusetts 1:3.5, Virginia 1: 4 and Georgia 1:7 – and since 2000, Georgia's ratio has gone down to 1:6. Gallagher et al (1999) also establish best child outcomes from a ratio of 1:4 through their comparison of states.

The PWC report noted similar international standards, such as a ratio of 1:3 recommended by the American Public Health Association and the American Academy of Pediatricians, and a ratio of 1:3 to 1:4 recommended by the National Association for the Education of Young Children in the US.

The 2002 draft regulation was by and large well received by NSW early childhood professionals because they moved towards these internationally accepted minimum standards.

> Whilst the IEC supports staff:child ratios of one adult to three children aged birth-12 months and one adult to five children aged 1-2 years, we applaud the move to 1:4 staff/child ratios for all children who are under the age of two years old. An improvement in the staff/child ratios (that is, fewer children per adult) offers more time for staff to spend in positive interactions with children. This can reduce stress for both the child and the staff member and bring about increased job satisfaction and lower staff turnover. (Institute of Early Childhood, 2002: 10)

1.3 Quality Outcomes for Children

The PWC evaluation reviews the literature on the benefits of child care services and finds the research supports the 2002 draft regulation to improve early childhood outcomes through a better staff child ratio (PWC, 2003).

In weighing up costs and benefits, PWC find significant reasons to support the proposed changes. They suggest that the benefits inherent in such standards in terms of improved outcomes for children are likely to outweigh the costs. Their review of the literature suggests such benefits as improvements in future welfare, special education, criminal justice, employment and earnings, and reduced disadvantage, as well as improved employment opportunities for mothers. They do not quantify the benefits in dollar terms because of estimation difficulties and the scope of the evaluation. Their findings from the literature lead them to conclude that benefits of adopting a 1:4 ratio are robust, nonetheless.

Increased support for young children, particularly for children under the age of 2 years, is recognised as an important intervention. Early childhood is one of the most vulnerable times faced by children, and interventions at this time have the greatest impact on well-being and development in the long run. Having too few staff creates an increased risk of staff being unresponsive to children’s needs, which the literature they review shows is one of the great risks in early childhood development (PWC, 2003).

The importance of early childhood development in terms of benefits is reinforced in other submissions in response to the draft legislation. The Institute of Early Childhood note that in addition to the substantial benefits gained by the children themselves, good quality childhood services are emphasised in the United Nations Convention on the Rights of the Child, and make important contributions to community and economic development (Institute of Early Childhood, 2002: 10).

The Institute of Early Childhood review the substantial benefits to be gained by provision of appropriate child care. Benefits accrue to the community and civil society, and reduce later social costs. Cognitive outcomes, language, numeracy, positive self-perceptions and social skills are improved particularly when targeted at under 3 year olds. Play, attachment, thinking and behaviour all substantially improve. They quote Barnett’s summation of the state of the literature:

> Across all studies, the findings were relatively uniform and constitute overwhelming evidence that early childhood care and education can produce sizeable improvements in school success. (Barnett, quoted in Institute of Early Childhood, 2003: 3-4)

The Institute of Early Childhood note that the impact of staffing upon children's performance is considerable, whereby several studies confirm that the more educated the staff, the better the results for children. Specialist trained carers create improved quality of experience and interaction for children. However, this raises the issue of the cost of employing such quality child care staff and most particularly, at the appropriate ratios. They note from Wangmann (2001, cited in Standing Committee on Social Issues, 2002: 25) that,

> Research recommends a ratio of 1:3 with [children below the age of three]…rather than 1:5, so certainly when you have more children to manage and work with and less adults to do that your ability to actually work effectively with these children is …limited. (quoted in Institute of Early Childhood, 2003: 5).

Finally, in seeking verification of the benefits obtained from adopting the 1:4 ratio following the April 2004 draft regulation announcement, the National Association of Community Based Children's Services (NACBCS) undertook a brief survey of member child care services in NSW that already provide a better than 1:5 staff child ratio for babies. Results obtained suggested substantial benefits and financial viability, though given the brief period to respond (one week from the announcement), the response was non-comprehensive. It is also inclusive only of community-based services, not private services.

Strong anecdotal evidence in favour of the 1:4 ratio was obtained from the survey, as can be seen in the following excerpts. The reasons respondents gave included a commitment to providing quality child care and education, staff conditions, child outcomes and parent preferences.

> We wrote in support of the new ratios at the time the draft regulations came out and feel really disappointed that the ratios are to remain at 1:5. It simply isn't quality care as anyone working with young children knows. *Sara, Sydney City*

> It is interesting that as we talk with our families about this current issue of ratios that 100 per cent support the lower ratios recognising that the quality of care and education for their children is directly influenced by staffing issues... *Deborah, Sydney City*

> Staff are quite concerned that the regs are going to stay at 1: 5 and they say the decision makers should come and work in a centre and see what it's like- for everyone- children, staff and families. *Wendy, North Coast*

> 1:5 should not be happening - quality outcomes for children are most important and 1:4 is hard enough but 1:5 impossible. *Jodie, Philip Park*

> Feedback from service staff indicates that there have been real benefits in terms of the care provided to the under 2's as well as the benefit of a less stressful working environment for staff. We receive positive feedback from parents who are happy and reassured by the care their children receive, particularly the opportunity to better reflect their child's individual needs throughout the program. Staff have reported it is easier to

> put children to sleep when required with the higher ratio, routines can be more flexible (eg two staff can supervise children while two others can be changing/feeding/putting/getting children from bed). If for some reason staff have worked with one less staff member, whilst still within the current ratio’s, they have reported they feel rushed and frazzled, the children become more unsettled and there is not so much time for ‘individual experiences with the children’. *Jan, Illawarra*
>
> We originally had 15 under 2's and 3 staff back in 1989. We increased staff ratios to 4 and reduced number to 14 to try and ensure all children and staff had opportunities for one on one and small group care, so important for young children's emotional and overall development and well being. This made a great difference to the way the children behaved in the room, settled more easily, very attached to the staff and their environment, more time to spend with each child and their families and the staff felt supported and felt they had time to interact with children instead of 'just managing the routines of the day'. *Paula, Eastern Sydney*

1.4 Impact on Staffing

The second set of outcomes from a better staff child ratio relate to staffing. NSW, like the rest of Australia, is suffering a shortage of qualified and experienced early childhood staff (FACS, 2003). Research suggests that a better staff child ratio can improve staff conditions and job satisfaction and reduce stress, thereby addressing problems aggravating the availability of staff. This section summarises some of that research.

NSW DoCS commissioned research into the reasons for and options to address the shortage of qualified early childhood staff in 2001 (Warrilow et al., 2004). Research participants identified staff child ratios as contributing to the shortage.

> Survey respondents commented on the impact that child:staff ratios have on the shortage of trained staff. Thirty nine per cent (67 respondents) stated that inadequate child:staff ratios contributed to the shortage. Several stakeholders highlighted the impact that caring for a lot of children can have, with staff feeling they are not meeting individual requirements and the demands placed on staff by parents wanted and expecting individual care at all times. Improving the child:staff ratios was raised as a way to address the problem of work conditions (45 per cent, 76 respondents). (Warrilow et al., 2004: 24)

Warrilow et al (2004) found reasons for the shortage of staff range from education opportunities, graduates leaving the profession and work conditions to the professional support and status of the profession. These reasons are exacerbated by the fragmentation of the profession, funding restrictions, limited career opportunities, mismatch between training and job expectations, level of administrative work required and workplace stress and burnout.

The research findings focused on how to build and maintain connection to the profession for potential students, undergraduates, staff working in the profession and people who have left the profession (Warrilow et al, 2004). Consistent staff child ratio regulations to recommended national and international minimum standards are likely to support this strategy.

The NACBCS member survey also provided anecdotal evidence of the staffing benefits experienced from the 1:4 ratio in NSW.

> Not only do we believe that these ratios better allow us to cater for individual routines, and quality interactions, but we also believe that staff working conditions are much better because of these ratios. Staff feel they can do their job 'properly', can really develop bonds and caring relationships, and can provide un-rushed, home-like routines throughout the day, every day. Our low staff turnover … certainly reflects this. *Stephanie, North Sydney*

> We believe that a higher ratio of carers to children gives us a better opportunity to provide quality care. If staff are to be supported in their professional endeavours then we need to have realistic numbers. When new babies begin at the centre we are very aware that they need lots of one to one. The director and administrative staff also spend time nurturing these new babies so that trust is developed. *Maria, Eastern Sydney*

> Job satisfaction plays an enormous part in keeping quality staff and I have always been so pleased to have worked at a centre that understood this and made it a priority, as stable, quality staff are the foundations of wonderful care and education for young children. Staff usually stay at the centre for at least 5 years, leaving to change professions or to take on more senior roles elsewhere. We have staff who have been at the centre between 10 and 15 years and are still passionate and committed about the work they do, what more could you ask for at a time when the profession seems over burdened, devalued (not in the share market but with people generally, which reflects the lack of competent, suitable staff) and unappreciated. *Paula, Eastern Sydney*

1.5 Summary of Impact on Children and Staff

Research on a minimum staff child ratio for care of children aged under 2 years supports a 1:4 ratio. It is consistent with NSW Government commitment to early childhood development, national and international recommended standards, outcomes for children and improving the availability of qualified and experienced early childhood staff.

2 Impact on the Cost of Child Care Places

Having established the significance to child care outcomes of a 1:4 staff child ratio, the next task is to examine the impact of the ratio on the cost of care. This is a two-step process in terms of the cost to the child care provider and possible impact on fees charged to families. The impact of cost can also have an affect on the supply of places, discussed in Section 3.

2.1 Impact on Costs

Providing care to children aged under 2 years is more expensive than for other age groups because of the better staff child ratio. A 1:4 staff child ratio exacerbates this cost difference.

The PWC evaluation of the draft regulations included an analysis of the costs of a better ratio based on results taken from a survey of long day care centres. PWC concludes that the 2002 draft regulation could lead to an increase in operating costs and the majority of the increase in costs would be associated with the improved staff:child ratio.[1]

PWC estimates that some 800 of the 2500 long day care and pre-school centres in New South Wales would be affected by the changes (that is, services that provide care for children aged under 2 years; Table 3.1). The cost impact is likely to be between $8,000 and $12,000 for small services, and $25,000 and $30,000 for large services. This would result in increases in costs per place of $250-$550. However, they also note a number of ways services are likely to mitigate that possible cost increase, discussed below.

PWC also concludes substantial fee increases for parents to cover such costs are unlikely. They note large numbers of centres have already instituted the required changes, and have successfully absorbed the costs. The next section will discuss why the link between cost and fees is not direct and why PWC argued that the full cost increase is unlikely to be passed on to parents in the form of fee increases for children in under 2 year old child care places.

The Institute of Early Childhood provide an alternative argument about the affect of improving the staff child ratio on costs. Whilst commenting on benefits, they do not explicitly examine the costs associated with employing more trained staff at specific ratios. They do however note that placing increased burdens on staff through poor staff child ratios exacerbates staff turnover, which both results in poorer care for children and increased costs for the centre.

> For early childhood services less staff turnover means reduced costs. For this reason alone it is a false economy to argue that reducing ratios

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[1] PWC evaluated five changes: (1) A reduced staff:child ratio from 1:5 to 1:4 for children under 2 years of age; (2) application of the youngest child's age when determining staff:child ratios in mixed age groups; (3) children under 3-6 years of age to be arranged and supervised in groups of not more than 20; (4) requirement for the authorised supervisor to be on the premises for no less than 60 per cent of the opening time; and (5) at least 2 staff members to check that no child remains on the premises after the service closes.

> (lowering the number of staff to children) or reducing the requirement for qualified staff will lead to cost savings for services. (Institute of Early Childhood, 2003: 7)

So while the direct cost of staff under an improved staff child ratio would increase salary expenditure, the indirect cost of staff turnover might decrease, mitigating some of the salary increase.

2.2 Impact on Fees

In operating a long day care centre, the cost of child care is predominantly covered by fees charged to parents. Indirectly, the means-tested Commonwealth Child Care Benefit assists by making fees more affordable to parents. Other income sources might include government operational subsidies and fund raising.

A child care service is not financially viable if the costs of providing child care places are too high to pass on to families. The implication is that viability is dependent on the mix of the number of places offered in each age group and how the costs are shared between age groups.

Service providers calculate fees by spreading total costs between all places in the centre or differentiating fees by the age of the child. The more the costs are shared, the more affordable are the fees for care for under 2 year places. As we shall see in this section, the degree to which these financial practices are applied vary by State and between provider type:

> We share the costs across all ages, $46 a day and $230 a week… The extra costs incurred through employing a fourth staff member in our under 2's is approx $31 a week, $6.20 a day ($30,000 divided by 47 weeks divided by 20 families in the nursery) if we charged only those families but as we have an extra staff member above regs in each room, 5 rooms in total, we share these costs across families. *Paula, Eastern Sydney*

The possible impact on fees of the change to the NSW draft regulation is discussed here by comparison to other States, some of which already have a minimum 1:4 staff child ratio, and referring to previous research, particularly the PWC 2003 report.

Comparison to States with 1:4 staff child ratio

A source of information on the possible impact on fees of a 1:4 staff child ratio is to compare changes in fees in other States with better staff child ratios. Other states have been quicker to move to a 1:4 staff child ratio than NSW. A 1:4 ratio has been in place in Western Australia since 1988, and Queensland adopted the better staff child ratio in September 2003. Fees in community and private long day care centres are compared by staff child ratio and State in Table 2.1.

Table 2.1: Impact of Staff Child Ratio on Long Day Care Fees, Children Under 2 Years by State, 2002

	NSW	Queensland	Western Australia	Victoria
Children under 2 years staff:child ratio	1:5	1:4	1:4	1:5
Year of regulations	1998	2003[b]	1998[c]	1998
Average weekly fees under 2 years[a]				
Private	$226	$174	$181	$184
Community	$208	$173	$182	$187
Average weekly fees, all children				
Private	$193	$173	$173	$182
Community	$201	$167	$178	$186
Average fees for under 2 year children as per cent of fees for all children				
Private	117.1%	100.6%	104.6%	101.1%
Community	103.5%	103.6%	102.2%	100.5%

Source: Commonwealth Census of Child Care Services 2002
Notes: a. Calculated as average fees for 1 year olds
b. 1:5 at time of data collection
c. 1:4 staff ratio since 1988

Table 2.1 shows fees are substantially higher in NSW than other states. This might be due to the cost of premises and NSW award pay rates (Warrilow et al., 2003). It might also be demand driven in terms of higher demand for places and higher family capacity to pay. Of particular interest is the large disparity in fees for children aged under 2 years between private and community services in NSW; private services charge $18 more a week compared to just $1 more in Qld, and $1 and $3 less in Western Australia and Victoria. In turn, NSW also has the largest disparity between community and private in terms of fees for all children; $8, compared to between $6 and $4 for the other States.

When we look at the fees for children under 2 years as a per cent of fees for all children, the NSW private fees are markedly higher, with fees charged for children under 2 years more than 117 per cent of general fees, as compared to between 100 to 105 per cent for other States. Even though community services are reported to differentiate fees by age group to some degree in NSW, the community under 2 year fees are on a par with other States, all between 100 and 104 per cent of general fees. These findings indicate that significantly more cross-subsidisation of fees across ages is practised in other States and most services than within NSW private child care services.

This supports the PWC 2003 report findings which suggest there is potential to cross subsidise to absorb cost increases, particularly in light of the size of the fee disparity for care for babies between community and private services in NSW.

It also shows that the better ratio has not impacted substantially on the costs and fees for children under 2 years in other States as compared to other ages.

Other research on the impact on fees

PWC suggests that if the full costs were passed onto consumers, the average increase in fees would be between 3 and 6 per cent and have the greatest impact on private services (PWC, 2004: iv). However, they note that cost increases are likely to be mitigated by a range of factors discussed below, and as a consequence, unlikely to be passed on in full and lead to substantial fee increase or reduction in the supply in under 2 year places.

There is the issue of the degree to which demand is likely to change, given price changes – or price elasticity – to consider. PWC note that conclusive evidence on changes in demand from changes in fees (prices) is lacking. They do note however that some elasticity is likely to be present, that it is likely to affect under 2's more than other age groups, though the impact will be mitigated by competition in the child care market and higher incomes among parent groups. They note that from 1995 to 2002 in NSW, fees across all ages increased more for community than private services, the highest community service increases applied to under 2's. Despite community services charging increasingly more for under 2's, PWC report no decrease in demand, with community services showing continued growth in childcare places at a rate faster than that of private services. This may be attributable to private services consistently charging more than community services for under 2's despite community service fee increases, with parents switching from private to community. However, it is also evidence of competition and growth potential in the sector.

They note that private services have seen falls in demand for under 2 places where fees have increased, a 4 per cent annual increase from 1997 to 2002 leading to a loss of approximately 790 places. However, over the same period, they note that demand for community places increased by 3900 places, despite an annual fee increase of 6 per cent. There is thus evidence of considerable growth despite substitution, and reduced price elasticity for community services. PWC interpret this as a willingness of capacity to pay higher fees for places for under'2's. They note that private services have a substantial under-utilised licensing capacity for under-2's, reflecting either profitability or affordability of such services. They also note that the historical increase in fees is greater than the cost of implementing operating changes 1 and 2 (the 1:4 ratio).

In sum then, PWC identify three main reasons as to why costs are unlikely to increase. First, the already high rate of voluntary compliance with the 1:4 ratio means that many centres will experience little or no cost increases. Second, competition between private and community centres will prevent the private centres from substantially increasing their costs; most centres are likely to absorb costs rather then pass them on either through utilising spare capacity (profitability, private services) or tapping into price-inelastic demand for growth (community services). Third, private services have the option of spreading the costs of caring for under 2 year old children across other age groups as a form of cross-subsidisation, a practice already largely followed in other States and within many community centres.

Overall, PWC suggests that costs would largely be absorbed and the reduction in the supply of places greatly mitigated. If cost increases are likely to be negligible, or restrained through cross subsidisation and cost absorption, substantial increases in fees are unlikely (PWC, 2003).

2.3 Summary of Cost and Fees

For children's services that do not already provide a 1:4 staff ratio for children under 2 years, staff costs will increase. However, there are a number of reasons why the full cost of this care is unlikely to be fully passed on to fees to families using care for this age group:

- many services, reportedly up to 50 per cent, already provide a 1:4 staff ratio, so the cost is already included in their fees. Competition will constrain fee increases for the other services adjusting to the new ratio. Growth in the supply of under 2 year old care seems to be in community places, again indicating competition pressure to restrain private centre fees;
- increased costs for one age group can be spread between all age groups, as is the common practice in other States with a better minimum staff child ratio; and
- the historic increase in demand for community service under 2 places – despite price increases greater than for under 2 private services – indicates that families appear willing and have the capacity to pay some fee differential for care for younger children. This suggests a small increase in fees could be managed by these families, without affecting demand.

3 Impact on the Supply of Child Care Places

The final task in assessing the impact of a 1:4 staff child ratio on care for children aged under 2 year, is to examine the likely impact on the supply of this type of child care.

This section addresses this question by looking at the extent and reasons for the current supply of better than 1:5 staff ratio for under 2 year places in NSW, comparison to other States with better staff ratios and previous research on the likely impact.

3.1 Current Supply of Under 2 Year Places in NSW

The PWC report notes that there are approximately 2500 long day care centres and pre-schools in NSW. The majority of these services are medium sized (1332), privately owned (1395) and do not offer places to children under the age of 2 (1564). Only 998 of the 2500 centres (40 per cent) offer places to children under the age of 2 years. Estimates from the FACS Census of Child Care Services show that there are in total 2528 child care services in NSW, of which 1429 are long-day care services. Almost a thousand (945) are privately operated, and 484 are community based services.

The PWC report suggests that a number of centres have already achieved the 1:4 staff ratios within NSW, most of which are community centres. They provide scant details on the distribution of this achievement across centres however.

The NACBCS survey asked members to what extent the 1:4 ratios had already been achieved. Strong anecdotal evidence in favour of the 1:4 ratio was obtained from the survey, as was some evidence that increased costs need not result in fee increases and financial losses.

> As with other centres, salaries make up about 70 per cent of our budget, then of course there are the huge insurance costs in the budget and yes, we do fundraise throughout the year (which our families really support us with)... but we can still offer these good staff ratios and qualifications, etc and continue to be financial without pricing ourselves out of the local market. *Lee, North Ryde*

3.2 Comparison of Places across States with a Better Staff Ratio

It is also useful to compare the statistics on places and services provided across States from the FACS Census of Child Care Services (2002). Comparisons of community and private long day care centres are presented in Table 3.1.

It can be seen from these figures that NSW has considerably less provision of care for the youngest children than other States, with the lowest percentage of places provided for children under the age of 2 as a proportion of all places, of all States. Private services are more responsible for this poor supply; with just 8 per cent of private places being for children under 2 years in NSW, as opposed to almost 20 per cent in Victoria.

Table 3.1: Impact of State Staff Ratios on Supply of Long Day Care Places and Services, Under 2 Years

	NSW	Queensland	Western Australia	Victoria
Children under 2 staff child ratio	1:5	1:4	1:4	1:5
Year of regulations	1998	2003[(b)]	1998[(c)]	1998
Number of places children under 2[(a)]				
Private	5796	9194	2814	7300
Community	6028	2723	1947	5222
Number places, all children				
Private	70860	65108	16203	36550
Community	38166	14573	8396	25576
Places for children under 2 as per cent of all places				
Private	8.18%	14.12%	17.37%	19.97%
Community	15.79%	18.69%	23.19%	20.42%
Both private and community	10.85%	14.96%	19.35%	20.16%
Number services with places for children under 2 years				
Private	382	465	162	371
Community	419	162	89	283
Total number of services				
Private	945	555	179	383
Community	484	167	92	301
Services with places for children under 2 as per cent of total services				
Private	40.42%	83.78%	90.50%	96.87%
Community	86.57%	97.01%	96.74%	94.02%

Source: Commonwealth Census of Child Care Services 2002
Notes: a. Calculated as supply of places and services for 1 year olds
b. 1:5 at time of data collection
c. 1:4 staff ratio since 1988

These data might indicate there is a short-term danger in moving to a 1:4 ratio for NSW, in that it already has low rates of provision, and such a move could reduce supply further. However, it also demonstrates that there is no comparative evidence that in the long-term the movement to improved ratios is likely to reduce the relative proportion of places for children under the age of 2 years.

Figures comparing the number of services providing care for babies tell a similar picture. NSW again has the lowest percentage of services providing care for children under the age of 2 years as a proportion of all services, of all States. This is true of both community and private services, though private services in NSW are particularly underrepresented; only 40 per cent of private services in NSW provide child care to children aged under 2 years in NSW, as opposed to around 90 per cent of services in other States.

3.3 Impact on Supply of Child Care Places

An impact of the increased cost of care for children aged under 2 years could be that the number of places for this age group could reduce. This would happen if providers passed on assessed that cost increases in full, in the form of increased parent fees. Increased fees would reduce demand, and in response providers reduce the overall provision of places or services.

PWC found this could lead to a reduction in places for between 334 and 556 services. This is a wide-ranging figure that would result in place losses of a maximum of 600 places, although they note the figure could be much less. Assuming such a figure to be the case, and 600 places are lost, such a figure is quite small when seen as a proportion of the total 97,000 places presently provided for children of all ages, amounting to approximately 0.6 per cent of the total. It becomes more alarming, though, when seen as a proportion of the current total 11,066 licensed places for children 0-2 years, as noted in the ministers press release. In this instance, 600 places constitutes a reduction of 5.4 per cent in total under 2 year long day care places.

There is insufficient scope within this report to model and estimate the effects of the ratio changes on supply; however a review of the process undertaken within the PWC report supports their conclusions that costs are unlikely to be translated into large fee increases (Section 2) or a large reduction in the supply of places.

The PWC report notes that the services most affected by the changes are medium and large sized private centres, as these centres presently offer the largest number of places for children under 2 years. Of the nearly 1000 centres that offer places to children under 2 years, PWC estimates that approximately 579 centres would be affected by the improved ratio, of which some will employ more staff, and others reduce the number of places on offer. They estimate the total impact on medium size centres to be $5.2 million and on large centres to be $2.3 million.

PWC further estimates that instituting operating changes 1 and 2 (staff ratio and age of youngest child) will affect 800 of the 1000 odd centres, with 246 centres increasing staff (producing a $5 million cost impact), 334 centres reducing places (producing a $5 million revenue loss) and 222 centres either reducing places or increasing staff (producing a $2.7 million cost impact). Given that revenues for these services are $800 million and staff costs $560 million, this would however only produce a revenue impact of 0.6 per cent and a cost impact of 0.9 per cent in staff costs.

This could lead an average reduction in number of places of between 2 to 4 per cent, depending on the size of the centre. On average, private services see higher reductions in places, of around 4 per cent for small, and 3 per cent for medium and large services.

PWC comments that the total [revenue/cost] impact is small (2003: 36), but that distributional issues are important, and costs to differing services may be important; small private firms would be the most effected, because of the small number of places they typically offer. The loss in small private places may present issues in terms of distribution of care and adequacy of provision.

PWC also notes, however, in analysing the FACS Census of Child Care Services, that there is considerable growth in community services and switching from private to community services. This indicates that increases in costs and subsequent losses in places, mostly incurred by private centres, may be matched by an increase in places in community services as people switch from private to community, rather than the places being lost altogether. As with costs, competition between public and private services will mitigate downturns in supply. Also, cross-subsidisation of costs across ages will likely see the reductions in places spread across all 97,000 places, and not just concentrated amongst the under 2's. Overall, their findings suggest that the maximum possible reduction of places of 600 seems unlikely to occur. PWC conclude that:

> Cost benefit analyses on early childhood programs indicate that both savings and benefits outweigh the cost of program provision. The beneficiaries of good quality early childhood programs are wide-ranging and include not only the children in such programs but also wider community benefits. (PWC, 2004: V)

3.4 Summary of Impact on Supply

A possible small reaction to the increase in staff costs for children's services that do not already provide a 1:4 staff ratio for children under 2 years might be to slightly reduce the supply of this type of care. The research shows it is unlikely that this effect will be large:

- many services, already provide a 1:4 staff ratio, so the cost is already factored in to their assessment of financial viability. Like fees, competition will continue to encourage providers to meet the greatest demand for child care, that is for care for children under 2 years
- in private care, it is larger services that provide most under 2 year care places. They are also in the financial position most able to absorb cost increases and spread costs between other age groups, without reducing supply; and
- in the previous FACS Census period, the greatest growth in care for babies was from the community sector, which is less likely to respond to changes in minimum quality standards by removing places from supply.

4 Conclusion

This research has examined the likely impact of improving the minimum standard for the staff child ratio for caring for children under 2 years in centre based and mobile care. It assessed the impact through comparison to other States, outcomes for children and staff, cost, fees and supply of care.

It appears that many services have already committed to improving the quality of care provided to this vulnerable age group and have managed to absorb the higher staff costs of a better staff child ratio.

It therefore seems possible that the other services could also be in this position, thereby mitigating the possible increases in parent fees and temporary reduction in places for children under 2 years.

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